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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 002987

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E.O. 12958: DECL: 07/13/2025

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SUBJECT: DEPUTY SECRETARY'S MEETING WITH IRAQI PLANNING  
MINISTER BARHAM SALIH

Classified By: Charge d' Affaires David M. Satterfield for reasons 1.4  
(b) and (d)

1. (C) SUMMARY. Iraq's Planning Minister Barham Salih told Deputy Secretary Zoellick on July 10 that key hurdles in finalizing a constitution include Sunnis' role in the process and the differing views of federalism held by the main ethno-religious communities. Zoellick emphasized the importance of sticking to the TAL timetable; Salih said it will be difficult but not impossible to do so. The Minister hopes that the IRFFI donors conference on July 18-19 will provide a venue to translate the political support shown for Iraq at the Brussels conference of June 22 into action, although he recognized new pledges were unlikely. Salih agreed when the Deputy Secretary emphasized the need for Iraq to demonstrate a clear policy direction to honor its commitments to the IMF to reduce subsidies, cut the budget deficit, and carry out other economic reforms, but noted there is politically-motivated foot-dragging among Prime Minister Jaafari's staff. The Minister highlighted the importance of private investment for reconstruction and development in Iraq. Salih suggested that the next JCRED be held inside Iraq. END SUMMARY.

2. (SBU) Deputy Secretary Zoellick met on July 10 with Iraqi Planning Minister Barham Salih on the occasion of the July 10-11 Joint Committee on Reconstruction and Development (JCRED).

3. (SBU) Participants:

U.S.  
Deputy Secretary Zoellick  
Assistant Secretary/EB, Tony Wayne  
NSC Senior Director Meghan O'Sullivan  
D Executive Assistant Ross Wilson  
S/I Deputy Director Bob Deutsch  
Economic Minister-Counselor Anne Derse (notetaker)

For Iraq:  
Minister of Planning and Development Cooperation, Barham Salih  
Chief of Staff Ahmed Salman

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Constitution Drafting Process  
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4. (C) Salih told the Deputy Secretary that there are now a large number of Sunnis in the constitution-writing process, but questions remain with respect to how representative they are and how cooperative they will be. Some of those brought into the process want to stop it, while others genuinely want elections as soon as possible. Salih said he disagreed with some who want an extension of the timetable. An election is needed as soon as possible to legitimize Sunni participation in the political process.

5. (C) The Minister said there is a move to change the elections law to have proportional representation at the governorate level. The Shia support this move. The Kurds would lose seats, but it probably would assure Sunni participation. Even though the Sunnis retain a dim view of Kurds, Salih said the Sunnis "are our people, and we have to talk to them." On other contentious issues related to the constitution, Salih noted the presence of a strong pro-federalist movement in the south of Iraq. The Minister said with regard to Kirkuk that the Kurds had made a commitment to normalize the situation there after the constitution, and he made clear his view that there is no need for Kirkuk's status to be in the Constitution.

6. (C) Zoellick emphasized the importance of sticking to the TAL timetable. Salih strongly agreed, saying it will be difficult but not impossible to do so. He said Speaker Hassani agrees it can be done. Noting that the EU constitution had fallen of its own weight, the Deputy Secretary told Salih that not every issue needs to be

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addressed in the Iraqi constitution. It can put in place a basic structure, leaving some issues for the future. The Minister agreed that it would make sense to have a constitution with basic structure and modalities, but not all the details, leaving some issues for the future.

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17. (C) Turning to the IRFFI donors conference that Jordan will host at the Dead Sea July 18-19, Salih said that it will be an important test as to whether the political support for Iraq shown at the June 22 Brussels conference would translate into action. Salih hopes to agree on priorities for the next six months. Donors want priorities; but everything in Iraq is a priority, and Salih therefore hopes to focus on job creation--where construction and housing are key sectors--as the overarching theme. The Minister recognized this will not be a pledging conference, but underscored the political desirability of finding some new pledges if possible. Assistant Secretary for Economic and Business Affairs Wayne noted that the USG has contacted all invitees to urge they make new pledges and disburse pledges already made.

18. (C) Noting his recent discussions with the IMF and World Bank leadership in Washington, Deputy Secretary Zoellick underscored the importance for Iraq of presenting to the IRFFI conference a short, prioritized, and action-oriented National Development Strategy draft, accompanied by an illustrative list of projects that lets donors know the ITG is focused. A short document would be the most effective one. He suggested the ITG present ranges or variables for the expected budget deficit so people know it is an issue that must be tackled. The Deputy Secretary said the IMF and World Bank are pressing for integration of the development and operating financing budgets. Progress on fuel subsidy reform, data provision, and the independent audit of the central bank are key for the IMF. The ITG needs to demonstrate a sense of commitment and signal clear direction on subsidies, even as details remain to be worked out through the political process. This will contribute to a positive IMF Board Review of Iraq in early August. The Deputy Secretary offered to work with the ITG to encourage Fund and

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Bank action with respect to Iraq.

19. (C) Salih agreed the ITG must make decisions and bite the bullet on subsidies and the budget deficit. Any government would think politically six months before elections, but the risk of inaction would be the unraveling of Iraq's historic debt reduction agreement. Salih said he and Finance Minister Ali Allawi are pushing for economic reform and compliance with the IMF's Emergency Post-Conflict Assistance (EPCA) program. He predicted action on fuel subsidies. Prime Minister Jaafari understands the situation is serious, that it not sustainable, and that Iraq cannot get enough fuel to the people as a result of the subsidies. Jordan had acted and so must Iraq. The Minister acknowledged he is worried, however, about those close to the Prime Minister who point to the downsides of reform, arguing elections are only six months off. In this context, headline-grabbing new pledges are very important.

110. (C) Salih further agreed the budget process must be integrated, pledging that he and Allawi will integrate the budget, and the new donor coordination mechanism will be built around that process. His vision is to spend \$30 billion over the next two years, with funding split equally between Iraq and donors.

111. (C) With reference to Iraq's need for resources, Salih said he is working hard on the investment law. He sees no need to replace the CPA orders on foreign investment (nos. 39 and 46) as some have pushed to do. Rather, the law will be elaborated with regulations. The new Investment Promotion Agency and OPIC Investment Incentive agreements will play a key part in empowering the private sector. Further, according to the Minister, Iraq's financial problems are pushing it to explore alternatives like build-own-operate (BOO) and build-own-transfer (BOT) agreements. Salih said the government cannot provide all needed investment in the oil sector.

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Next JCRED  
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112. (C) The Deputy Secretary suggested holding another JCRED meeting in the fall. Noting that USG engagement is very important to help push for reforms, Salih agreed but added it is politically important to conduct the meeting in Iraq -- in the capital or Irbil. He said the ITG is pushing the UN and World Bank to do more training in Iraq as well.

113. (U) REO Hillah, Basrah, Kirkuk, and Mosul Minimize considered  
Satterfield